

**REPORT OF THE AUDIT OF THE
TODD COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2004**



**CRIT LUALLEN
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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Carl Kent Knight, Todd County Judge/Executive
Members of the Todd County Fiscal Court

The enclosed report prepared by Kem, Duguid & Associates, PSC, Certified Public Accountants, presents the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Todd County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements.

We engaged Kem, Duguid & Associates, PSC to perform the audit of these financial statements. We worked closely with the firm during our report review process; Kem, Duguid & Associates, PSC evaluated the Todd County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE TODD COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2004**

Kem, Duguid & Associates, PSC has completed the audit of the Todd County Fiscal Court for fiscal year ended June 30, 2004. We have issued an unqualified opinion on the governmental activities, each major fund, and the aggregate remaining fund information.

Financial Condition:

The fiscal court had net assets of \$1,770,981 as of June 30, 2004. The fiscal court had unrestricted net assets of \$638,051 in its governmental activities as of June 30, 2004. The fiscal court had total debt principal as of June 30, 2004 of \$212,781 with \$45,430 due within the next year.

Comment and Recommendation:

- The Fiscal Court Should Adopt An Administrative Code

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities.

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Certified Public Accountants

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MICHAEL A. KEM

SANDRA D. DUGUID

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Carl Kent Knight, Todd County Judge/Executive

Members of the Todd County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Todd County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Todd County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Todd County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Todd County, Kentucky, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has implemented Governmental Accounting Standards Board Statements 33, 34, and 37 as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements.

Todd County, Kentucky has not presented the management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

MEMBERS:

American Institute of Certified Public Accountants

Kentucky Society of Certified Public Accountants

To the People of Kentucky
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Budgetary comparison information is not a required part of the basis financial statements but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

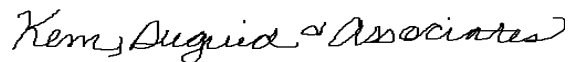
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Todd County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated July 6, 2005 on our consideration of Todd County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the following comment and recommendation, included herein, which discusses the following report comment:

- The Fiscal Court Should Adopt An Administrative Code

Respectfully submitted,



Kem, Duguid & Associates, PSC

Audit fieldwork completed -
July 6, 2005

TODD COUNTY OFFICIALS

For The Year Ended June 30, 2004

Fiscal Court Members:

Carl Kent Knight	County Judge/Executive
Roy Addison Jr.	Magistrate
James Turner	Magistrate
Wade Chester	Magistrate
Billy Bryant	Magistrate
Brent Spurlin	Magistrate

Other Elected Officials:

Harold Mac Johns	County Attorney
Boone Stokes	Jailer
Billy Fowler	County Clerk
Keith Wells	Sheriff
Perry Stokes	Property Valuation Administrator
Jimmy Shemwell	Coroner

Appointed Personnel:

Tammy Robertson	County Treasurer
Tammy Robertson	Occupational Tax Collector
Lori Carver	Finance Officer
Pat Ruby	911 Administrator
Lori Carver	Personnel or Payroll Clerk
Susann Johnson	Jail Administrative Assistant/Bookkeeper
Lori Carver	Data Processing Clerk

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TODD COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

TODD COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 638,051
Total Current Assets	<u>638,051</u>
Noncurrent Assets:	
Capital Assets - Net of Accumulated	
Depreciation:	
Land and Land Improvements	126,386
Buildings	573,607
Infrastructure	162,866
Vehicles and Equipment	<u>482,852</u>
Total Noncurrent Assets	<u>1,345,711</u>
Total Assets	<u>1,983,762</u>
LIABILITIES	
Current Liabilities:	
Financing Obligations Payable	<u>45,430</u>
Total Current Liabilities	<u>45,430</u>
Noncurrent Liabilities:	
Financing Obligations Payable	<u>167,351</u>
Total Noncurrent Liabilities	<u>167,351</u>
Total Liabilities	<u>212,781</u>
NET ASSETS	
Invested in Capital Assets,	
Net of Related Debt	1,132,930
Unrestricted	<u>638,051</u>
Total net assets	<u>\$ 1,770,981</u>

The accompanying notes are an integral part of the financial statements.

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TODD COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2004

TODD COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

Functions/Programs Reporting Entity		Program Revenues Received		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
	Expenses			
Governmental Activities:				
General Government	\$ 604,376	\$ 43,582	\$ 63,905	\$
Protection to Persons and Property	985,794	150,807	225,975	
General Health and Sanitation	129,246		22,972	
Roads	580,960		1,009,713	
Debt Service	9,831			
Total Governmental Activities	<u>2,325,207</u>	<u>194,389</u>	<u>1,322,565</u>	
 Total Primary Government	 <u>\$ 2,325,207</u>	 <u>\$ 194,389</u>	 <u>\$ 1,322,565</u>	 <u>\$</u>

General Revenues:

Taxes:
 Real Property Taxes
 Motor Vehicle Taxes
 Other Taxes
 License and Permits
 Excess Fees
 Unrestricted Investment Earnings
 Building Rental
 Miscellaneous Revenues

 Total General Revenues
 Change in Net Assets
 Net Assets - Beginning (Restated)

 Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

TODD COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2004
(Continued)

**Net (Expenses) Revenues
and Changes in Net Assets**

Governmental Activities	
\$	(496,889)
	(609,012)
	(106,274)
	428,753
	(9,831)
	<u>(793,253)</u>
	 (793,253)
	<u>(793,253)</u>

	253,268
	56,278
	636,120
	450
	1,787
	23,078
	28,446
	<u>32,703</u>
	<u>1,032,130</u>
	238,877
	<u>1,532,104</u>
\$	<u><u>1,770,981</u></u>

The accompanying notes are an integral part of the financial statements.

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TODD COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2004

TODD COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2004

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>Ambulance Fund</u>	<u>Dispatch Fund</u>
ASSETS					
Cash and Cash Equivalents	\$ 15,715	\$ 614,026	\$	\$	\$
Total assets	<u>\$ 15,715</u>	<u>\$ 614,026</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
FUND BALANCES					
Unreserved:					
General Fund	\$ 15,715	\$	\$	\$	\$
Special Revenue Fund		614,026			
Total Fund Balances	<u>\$ 15,715</u>	<u>\$ 614,026</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

The accompanying notes are an integral part of the financial statements.

TODD COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2004
(Continued)

Non-Major Governmental Funds	Total Governmental Funds
<u>\$ 8,310</u>	<u>\$ 638,051</u>
<u><u>\$ 8,310</u></u>	<u><u>\$ 638,051</u></u>

<u>\$ 8,310</u>	<u>\$ 15,715</u>
<u><u>\$ 8,310</u></u>	<u><u>622,336</u></u>
<u><u>\$ 8,310</u></u>	<u><u>\$ 638,051</u></u>

Reconciliation of Balance Sheet - Governmental Funds to Statement of Net Assets:

Total Fund Balances	\$ 638,051
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	2,732,846
Accumulated Depreciation	(1,387,135)
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Financing Obligations	<u>(212,781)</u>
Net Assets Of Governmental Activities	<u><u>\$ 1,770,981</u></u>

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TODD COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

TODD COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>Ambulance Fund</u>
REVENUES				
Taxes	\$ 723,947	\$	\$	\$ 19,576
In Lieu Tax Payments	132,623			
Excess Fees	1,787			
Licenses and Permits	450			
Intergovernmental	92,351	1,009,713	158,058	129,207
Charges for Services	3,440			
Miscellaneous	14,102	6,588	2,915	8,912
Interest	23,012			66
Total Revenues	<u>991,712</u>	<u>1,016,301</u>	<u>160,973</u>	<u>157,761</u>
EXPENDITURES				
General Government	305,811	28,144		
Protection to Persons and Property	21,167		550,443	236,365
General Health and Sanitation	11,219			
Roads		751,456		
Debt Service			11,485	
Capital Projects	15,000			
Administration	92,423	74,323	39,436	37,840
Total Expenditures	<u>445,620</u>	<u>853,923</u>	<u>601,364</u>	<u>274,205</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>546,092</u>	<u>162,378</u>	<u>(440,391)</u>	<u>(116,444)</u>
Other Financing Sources (Uses)				
Financing Obligation Proceeds	15,000			
Transfers From Other Funds	178,238	85,000	440,391	113,440
Transfers To Other Funds	(727,495)	(157,895)		
Total Other Financing Sources (Uses)	<u>(534,257)</u>	<u>(72,895)</u>	<u>440,391</u>	<u>113,440</u>
Net Change in Fund Balances	11,835	89,483		(3,004)
Fund Balances - Beginning	3,880	524,543		3,004
Fund Balances - Ending	<u>\$ 15,715</u>	<u>\$ 614,026</u>	<u>\$ 0</u>	<u>\$ 0</u>

The accompanying notes are an integral part of the financial statements.

TODD COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
(Continued)
For The Year Ended June 30, 2004

<u>Dispatch Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 84,814	\$ 4,283	\$ 832,620
		132,623
		1,787
		450
43,824	27,489	1,460,642
21,600	40,142	65,182
	186	32,703
		23,078
<u>150,238</u>	<u>72,100</u>	<u>2,549,085</u>
	1,454	335,409
164,044	1,496	973,515
	118,027	129,246
		751,456
		11,485
		15,000
16,179	3,866	264,066
<u>180,223</u>	<u>124,843</u>	<u>2,480,177</u>
<u>(29,985)</u>	<u>(52,743)</u>	<u>68,908</u>
		15,000
28,159	60,505	905,733
<u>(20,343)</u>		<u>(905,733)</u>
<u>7,816</u>	<u>60,505</u>	
(22,169)	7,762	83,908
22,169	547	554,143
<u>\$ 0</u>	<u>\$ 8,309</u>	<u>\$ 638,051</u>

The accompanying notes are an integral part of the financial statements.

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TODD COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

TODD COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

Net Change in Fund Balances - Total Governmental Funds	\$ 83,908
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Capital Outlay	248,177
Depreciation Expense	(122,406)
The issuance of long-term debt (e.g. bonds, financing obligations) provides current financial resources to governmental funds while the repayment of principal on long-term debt consumes the current financial resources of governmental funds. These transactions, however, have no effect on net assets.	
Financing Obligation Principal Payment	<u>44,199</u>
Change in Net Assets of Governmental Activities	<u><u>\$ 253,878</u></u>

The accompanying notes are an integral part of the financial statements.

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TO THE FINANCIAL STATEMENTS**

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**TODD COUNTY
NOTES TO FINANCIAL STATEMENTS**

June 30, 2004

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however, the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Todd County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or their exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented. Based upon the application of the criteria stated in GASB 14, there are no component units which merit consideration as part of the reporting entity.

C. Elected Officials

Kentucky law provides for election of the below officials from the geographic area constituting Todd County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Todd County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

TODD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are a least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

TODD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

Governmental Funds (Continued)

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, other counties for housing prisoners and transfers from the General Fund. The Governor's Office For Local Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Ambulance Fund - The primary purpose of this fund is to account for the ambulance expenses of the county. The primary source of revenues is ambulance fees.

Dispatch Fund – The primary purpose of this fund is to account for the dispatch expenses of the county.

The primary government also has the following nonmajor funds: Local Government Economic Assistance Fund, Timberland Tax Fund, and Solid Waste Fund.

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, Ambulance Fund, Dispatch Fund, Timberland Tax Fund and Solid Waste Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

TODD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	3-25
Infrastructure	\$ 20,000	10-50

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

TODD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity (Continued)

“Reserved for Encumbrances” are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities, however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

J. Related Organization and Jointly Governed Organization

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization’s governing board. Based on these criteria, the Todd County Water District is considered a related organization of Todd County Fiscal Court.

A legal entity or other organization that results from a contractual agreement and that is governed by two or more participants as a separate activity subject to joint control, in which the participants retain no (a) ongoing financial interest or (b) ongoing financial responsibility is a jointly governed organization. The Todd County Fiscal Court, in conjunction with the City of Elkton, has created the Elkton-Todd County Airport Board. The Elkton-Todd County Airport Board is composed of six member appointed by the county and the city. Each government appoints three members.

Note 2. Deposits

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

TODD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 2. Deposits (Continued)

These requirements were met, and as of June 30, 2004, the primary government and component units' deposits were fully insured or collateralized at a 100% level with collateral of pledged securities held by the county's agent in the county's name.

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2004 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 126,386	\$	\$	\$ 126,386
Total Capital Assets Not Being Depreciated	126,386			126,386
Capital Assets, Being Depreciated:				
Buildings	1,212,965			1,212,965
Infrastructure		180,962		180,962
Vehicles and Equipment	1,145,318	67,215		1,212,533
Total Capital Assets Being Depreciated	2,358,283	248,177		2,606,460
Less Accumulated Depreciation For:				
Buildings	625,647	13,711		639,358
Infrastructure	-	18,096		18,096
Vehicles and Equipment	639,082	90,599		729,681
Total Accumulated Depreciation	1,264,729	122,406		1,387,135
Total Capital Assets, Being Depreciated, Net	1,093,554	125,771		1,219,325
Governmental Activities Capital Assets, Net	\$ 1,219,940	\$ 125,771	\$	\$ 1,345,711

Depreciation expense was charged to functions of the primary government as follows:

General Government	\$27,701
Protection to Persons and Property	49,523
Roads, including depreciation of General Infrastructure Assets	45,182
Total Depreciation Expense - Governmental Activities	<u>\$122,406</u>

TODD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 4. Long-term Debt - Financing Obligations

A. Computer Software Financing Obligation

The county entered into a financing obligation with the Kentucky Association of Counties Leasing Trust for accounting software. The lease agreement requires monthly principal and interest payments. The total amount of the principal was \$15,000. The principal outstanding as of June 30, 2004 was \$10,144. Future principal and interest requirements are:

	<u>Principal</u>	<u>Interest & Fees</u>
2005	\$ 4,999	\$ 229
2006	5,145	82
Totals	<u>\$ 10,144</u>	<u>\$ 311</u>

B. Jail Financing Obligation

The county entered into a financing obligation with the Kentucky Association of Counties Leasing Trust for construction on the Todd County Jail. The agreement requires monthly interest payments and a semi-annual principal payment on January 20 of each year through 2011.

The county refinanced this agreement on May 7, 2001 at a lower interest rate of 4.596%. The total principal balance of the agreement is \$66,000 as of June 30, 2004. Future principal and interest requirements are:

	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest & Fees</u>
2005	\$ 8,000	\$ 3,028
2006	9,000	2,621
2007	9,000	2,186
2008	9,000	1,751
2009	10,000	1,292
2010 - 2011	<u>21,000</u>	<u>1,128</u>
Totals	<u>\$ 66,000</u>	<u>\$ 12,006</u>

TODD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 4. Long-term Debt - Financing Obligations (Continued)

C. 911 Equipment Financing Obligation

The county entered into a financing obligation with Wells Fargo Bank for 911 equipment. The agreement requires annual principal and interest payments. The total amount of principal was \$167,980. The principal outstanding as of June 30, 2004 was \$136,637. Future principal and interest requirements are:

	<u>Principal</u>	<u>Interest & Fees</u>
2005	\$ 32,431	\$ 4,813
2006	33,572	3,671
2007	34,754	2,489
2008	<u>35,880</u>	<u>1,268</u>
Totals	<u>\$ 136,637</u>	<u>\$ 12,241</u>

D. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2004, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Primary Government:					
<u>Governmental Activities:</u>					
Financing Obligations	\$ 241,980	\$ 15,000	\$ 44,199	\$ 212,781	\$ 45,430
Governmental Activities					
Long-term Liabilities	<u>\$ 241,980</u>	<u>\$ 15,000</u>	<u>\$ 44,199</u>	<u>\$ 212,781</u>	<u>\$ 45,430</u>

Note 5. Employee Retirement System

The Todd Fiscal Court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

TODD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 6. Insurance

For the fiscal year ended June 30, 2004, Todd County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 7. Changes in Accounting Principles and Prior Period Adjustments

The county has implemented Governmental Accounting Standards Board (GASB) Statements 33, 34 and 37, as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements. The effect of this change on the beginning net assets of the governmental type activities is an increase of \$977,960 due to capital assets and debt previously not reported.

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TODD COUNTY
BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS
Required Supplementary Information

For The Year Ended June 30, 2004

TODD COUNTY
BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS
Required Supplementary Information

For The Year Ended June 30, 2004

GENERAL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 736,250	\$ 736,250	\$ 723,947	\$ (12,303)
In Lieu Tax Payments	125,000	125,000	132,623	7,623
Excess Fees	8,500	8,500	1,787	(6,713)
Licenses and Permits	500	500	450	(50)
Intergovernmental Revenue	70,375	70,375	92,351	21,976
Charges for Services	2,500	2,500	3,440	940
Miscellaneous	10,800	10,800	14,102	3,302
Interest	5,000	5,000	23,012	18,012
Total Revenues	958,925	958,925	991,712	32,787
EXPENDITURES				
General Government	362,330	318,296	305,811	12,485
Protection to Persons and Property	3,250	27,592	21,167	6,425
General Health and Sanitation	10,468	11,344	11,219	125
Social Services	3,700	112		112
Administration	115,600	104,395	92,423	11,972
Total Expenditures	495,348	461,739	430,620	31,119
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	463,577	497,186	561,092	63,906
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	72,470	72,470	178,238	105,768
Transfers To Other Funds	(560,857)	(560,857)	(727,495)	(166,638)
Total Other Financing Sources (Uses)	(488,387)	(488,387)	(549,257)	(60,870)
Net Changes in Fund Balances	(24,810)	8,799	11,835	3,036
Fund Balances - Beginning	24,810	24,810	3,880	(20,930)
Fund Balances - Ending	\$ 0	\$ 33,609	\$ 15,715	\$ (17,894)

TODD COUNTY
BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS
Required Supplementary Information
For The Year Ended June 30, 2004
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 840,826	\$ 840,826	\$ 1,009,713	\$ 168,887
Miscellaneous	3,000	3,000	6,588	3,588
Total Revenues	843,826	843,826	1,016,301	172,475
EXPENDITURES				
General	22,000	28,200	28,144	56
Roads	710,990	804,957	751,456	53,501
Administration	80,150	80,590	74,323	6,267
Total Expenditures	813,140	913,747	853,923	59,824
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	30,686	(69,921)	162,378	232,299
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds			85,000	85,000
Transfers To Other Funds	(72,470)	(72,470)	(157,895)	(85,425)
Total Other Financing Sources (Uses)	(72,470)	(72,470)	(72,895)	(425)
Net Changes in Fund Balances	(41,784)	(142,391)	89,483	231,874
Fund Balances - Beginning	41,784	41,784	524,543	482,759
Fund Balances - Ending	-	\$ (100,607)	\$ 614,026	\$ 714,633

TODD COUNTY
BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS
Required Supplementary Information
For The Year Ended June 30, 2004
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Intergovernmental Revenue	\$ 149,720	\$ 149,720	\$ 158,058	\$ 8,338
Miscellaneous	4,300	4,300	2,915	(1,385)
Total Revenues	154,020	154,020	160,973	6,953
EXPENDITURES				
Protection to Persons and Property	492,460	554,809	550,443	4,366
Debt Service	11,600	11,600	11,485	115
Administration	42,450	40,279	39,436	843
Total Expenditures	546,510	606,688	601,364	5,324
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(392,490)	(452,668)	(440,391)	12,277
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	392,490	392,490	440,391	47,901
Total Other Financing Sources (Uses)	392,490	392,490	440,391	47,901
Net Changes in Fund Balances		(60,178)		(60,178)
Fund Balances - Beginning				
Fund Balances - Ending	\$ 0	\$ (60,178)	\$ 0	\$ (60,178)

TODD COUNTY
BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS
Required Supplementary Information
For The Year Ended June 30, 2004
(Continued)

	AMBULANCE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 21,583	\$ 21,583	\$ 19,576	\$ (2,007)
Charges for Services	160,000	160,000	129,207	(30,793)
Miscellaneous	100	100	8,912	8,812
Interest	1,000	1,000	66	(934)
Total Revenues	182,683	182,683	157,761	(24,922)
EXPENDITURES				
Protection to Persons and Property	235,150	253,451	236,365	17,086
Administration	38,100	39,375	37,840	1,535
Total Expenditures	273,250	292,826	274,205	18,621
Excess (Deficiency) of Revenues				
Over Expenditures Before Other Financing Sources (Uses)	(90,567)	(110,143)	(116,444)	(6,301)
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	90,567	90,567	113,440	22,873
Total Other Financing Sources (Uses)	90,567	90,567	113,440	22,873
Net Changes in Fund Balances		(19,576)	(3,004)	16,572
Fund Balances - Beginning			3,004	3,004
Fund Balances - Ending	\$ 0	\$ (19,576)	\$ 0	\$ 19,576

TODD COUNTY
BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS
Required Supplementary Information
For The Year Ended June 30, 2004
(Continued)

	DISPATCH FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 90,000	\$ 90,000	\$ 84,814	\$ (5,186)
Intergovernmental Revenue	42,000	42,000	43,824	1,824
Charges for Services	22,000	22,000	21,600	(400)
Total Revenues	154,000	154,000	150,238	(3,762)
EXPENDITURES				
Protection to Persons and Property	160,500	165,210	164,044	1,166
Administration	18,700	16,890	16,179	711
Total Expenditures	179,200	182,100	180,223	1,877
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(25,200)	(28,100)	(29,985)	(1,885)
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds			28,159	28,159
Transfers To Other Funds			(20,343)	(20,343)
Total Other Financing Sources (Uses)			7,816	7,816
Net Changes in Fund Balances	(25,200)	(28,100)	(22,169)	5,931
Fund Balances - Beginning	25,200	25,200	22,169	(3,031)
Fund Balances - Ending	\$ 0	\$ (2,900)	\$ 0	\$ 2,900

TODD COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2004

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Reconciliation of General Fund - Budgetary Comparison Schedule to the Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds:

Total expenditures and total other financing sources (uses) for the Budgetary Comparison Schedule are \$15,000 less than the amounts shown on the Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds because of the agreement between the County and KACOLT (See Note 4) to purchase computer software. KACOLT paid the vendor directly and the county is subsequently paying the long-term debt. Since the county did not pay the vendor directly, they did not budget for these transactions.

TODD COUNTY
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2004

TODD COUNTY
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2004

	Local Government Economic Assistance Fund	Timberland Tax Fund	Solid Waste Fund	Total Non-Major Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 3,569	\$ 2,829	\$ 1,912	\$ 8,310
Total assets	<u>\$ 3,569</u>	<u>\$ 2,829</u>	<u>\$ 1,912</u>	<u>\$ 8,310</u>
FUND BALANCES				
Unreserved:				
Special Revenue Fund	<u>\$ 3,569</u>	<u>\$ 2,829</u>	<u>\$ 1,912</u>	<u>\$ 8,310</u>
Total Fund Balances	<u>\$ 3,569</u>	<u>\$ 2,829</u>	<u>\$ 1,912</u>	<u>\$ 8,310</u>

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TODD COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2004

TODD COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2004

	Local Government Economic Assistance Fund	Timberland Tax Fund	Solid Waste Fund	Total Non-Major Governmental Funds
REVENUES				
Taxes	\$	\$ 4,283	\$	\$ 4,283
Intergovernmental	4,517		22,972	27,489
Charges for Services			40,142	40,142
Miscellaneous			186	186
Total Revenues	<u>4,517</u>	<u>4,283</u>	<u>63,300</u>	<u>72,100</u>
EXPENDITURES				
General Government		1,454		1,454
Protection to Persons and Property	1,496			1,496
General Health and Sanitation			118,027	118,027
Administration			3,866	3,866
Total Expenditures	<u>1,496</u>	<u>1,454</u>	<u>121,893</u>	<u>124,843</u>
Excess (deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>3,021</u>	<u>2,829</u>	<u>(58,593)</u>	<u>(52,743)</u>
Other Financing Sources (Uses)				
Transfers From Other Funds			60,505	60,505
Total Other Financing Sources (Uses)			<u>60,505</u>	<u>60,505</u>
Net Change in Fund Balances	3,022	2,829	1,912	7,763
Fund Balances - Beginning (Restated)	547			547
Fund Balances - Ending	<u>\$ 3,569</u>	<u>\$ 2,829</u>	<u>\$ 1,912</u>	<u>\$ 8,310</u>

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COMMENT AND RECOMMENDATION

**TODD COUNTY
COMMENT AND RECOMMENDATION
FOR THE YEAR ENDED JUNE 30, 2004**

NONCOMPLIANCE WITH STATE LAWS AND REGULATIONS:

The Fiscal Court Should Adopt An Administrative Code

The fiscal court has not adopted an administrative code as required by KRS 68.005. KRS 68.005 states: The fiscal court shall adopt an administrative code, which includes, but is not limited to, procedures and designation of responsibility for:

- (a) General administration of the office of the county judge/executive, county administrative agencies, and public authorities.
- (b) Administration of county fiscal affairs, including budget formulation, receipt and disbursement of county funds, and preparation of records required for the county audits, and filing of claims against the county.
- (c) Personnel administration, including description and classification of non-elected positions, selection, assignment, supervision, and discipline of employees, employee complaints and the county's affirmative action program.
- (d) County purchasing and award of contracts;
- (e) Delivery of county services.

We recommend that the fiscal court comply with this statute.

County Judge/Executive Kent Knight's Response:

"Four fiscal court members took judge to court. Four members of fiscal court had county attorney as their lawyer."

PRIOR YEAR FINDINGS

2003-1 The Fiscal Court Shall Adopt An Administrative Code

This was not corrected and is discussed above.

2003-2 The County Jailer's Bond is Insufficient

This was corrected.

2003-3 The Fiscal Court Should Follow Proper Purchasing Procedures

This was corrected.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

KEM, DUGUID & ASSOCIATES, P.S.C.

Certified Public Accountants

102 WEST SECOND STREET

P. O. BOX 562

HOPKINSVILLE, KENTUCKY 42240

(270) 886-6355 (270) 886-8662(FAX)

MICHAEL A. KEM

SANDRA D. DUGUID

Honorable Carl Kent Knight, Todd County Judge/Executive
Members of the Todd County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Todd County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated July 6, 2005. Todd County, Kentucky presents its financial statements on the modified cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Todd County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Todd County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under Government Auditing Standards.

- The Fiscal Court Should Adopt An Administrative Code

MEMBERS:

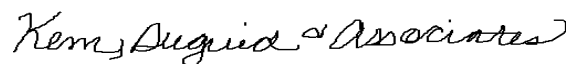
American Institute of Certified Public Accountants

Kentucky Society of Certified Public Accountants

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in cursive script that reads "Kem, Duguid & Associates".

Kem, Duguid & Associates, PSC

Audit fieldwork completed -
July 6, 2005

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

TODD COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2004**

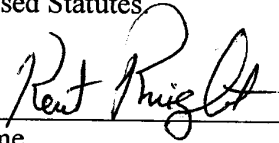
CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE

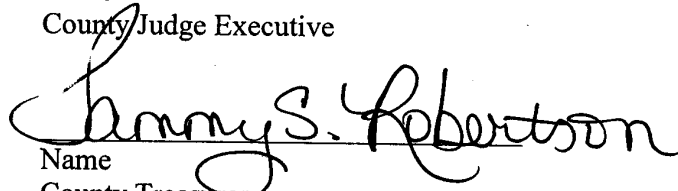
TODD COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2004

The Todd County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Name
County Judge Executive



Name
County Treasurer